

The Earnings Contingent Education Loans (ExCEL) Act

Rep. Tom Petri (R-WI)

Problem:

- The default rate on federal student loans is very high—over 13 percent of borrowers will default within three years of entering repayment.
- While much of the media attention has focused on the levels of student borrowing—no doubt an important issue—a majority of students default on manageable levels of debt.
- The federal student loan program includes numerous protections for borrowers to avoid default. However, most students don't utilize them because the system is so complicated.
- Default is expensive for the government and often financially ruinous for the borrower.

Solution:

- Simplify and consolidate: Replace our complicated array of loans, subsidies, deferments, forbearances, and repayment options with a single loan repaid through simplified and improved income-based repayment.
- Automatically keeps payments affordable: A borrower would pay a percentage of his or her income until the loan is repaid. Borrowers pay more when they're doing well and are protected during periods of unemployment or low earnings.
- Strong borrower protections: Interest would not compound during repayment and would be capped at 50 percent of the loan's balance upon graduation.
- Streamlined payment:
 1. Our current income-based repayment option is administratively difficult for borrowers to navigate. Borrowers must submit paperwork with evidence of income changes to change payment amounts, which is very burdensome, especially during times of unemployment.
 2. Streamlined payment: Because obligation is a percentage of a borrower's income, employers would simply withhold an additional percentage with federal and state taxes.
 3. No paperwork: This means a borrower's payments are automatically adjusted based on their current ability to pay without requiring them to fill out complicated paperwork.

Bottom Line:

- Students repay what they borrow, but with affordable payments and protections against the financial ruin that often comes with student loan default.
- Proven results: Similar reforms made in Great Britain, Australia, and New Zealand with extremely successful results—in Great Britain, 98% of borrowers are meeting obligations.
- Saves taxpayer dollars by streamlining and consolidating programs, reducing collections costs caused by defaults, and eliminating subsidies made obsolete by these reforms.